# Implementation errors during the transition to the International Financial Reporting Standards, Chief Financial Officer's compensation and turnover and earnings quality metrics

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## CERTIFICATE OF AUTHORSHIP/ORIGINALITY

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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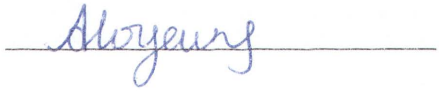

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**TABLES OF CONTENTS**

## Contents

**ABSTRACT** ..... ix

CHAPTER 1 ..... 1

Introduction ..... 1

1.1 Introduction ..... 1

1.2 Motivation for the research ..... 1

1.3 Key findings ..... 4

1.4 Contribution of the Research ..... 6

CHAPTER 2 ..... 9

The relation between the CFO's accounting talent, compensation and turnover ..... 9

2.1 Introduction ..... 9

2.2 Literature review and theory development ..... 14

2.2.1 Relevant literature ..... 14

2.2.2 Hypotheses development ..... 17

2.3 Research design ..... 20

2.3.1 Sample and Data collection ..... 20

2.3.2 Experimental Design ..... 23

2.4 Results ..... 29

2.4.1 Descriptive statistics and variables definition ..... 29

2.4.2 Results for $H_1$ and $H_2$ based on the association between the CFO's accounting talent and the CFO's compensation. ..... 35

2.4.3 Results for $H_3$ based on the association between the CFO's accounting talent and the CFO's turnover. ..... 44

2. 5 Additional tests ..... 47

2.5.1 CEO's accounting talent ..... 47
2.5.2 Alternative specifications of the control variables ..... 47
2.5.3 Two-stage least squares regression ..... 48
2.5.4 Other sensitivities ..... 49
2.6 Conclusion ..... 49
CHAPTER 3 ..... 52
IFRS implementation errors and earnings quality metrics ..... 52
3.1 Introduction ..... 52
3.2 Literature review and hypothesis development ..... 57
3.2.1 Reported earnings and the implementation process ..... 57
3.2.2 Settings to evaluate implementation decisions ..... 58
3.3 Research design ..... 66
3.3.1 Sample and data collection ..... 66
3.3.2 Experimental Design ..... 68
3.4 Results ..... 73
3.4.1 Descriptive statistics and variables definition ..... 73
3.4.2 Univariate evidence on the association between earnings quality metrics and implementation errors ..... 77
3.4.3 Multivariate evidence on the association between earnings quality metrics and implementation errors ..... 80
3.5 Additional tests ..... 86
3.6 Implications of the results. ..... 90
3.7 Conclusion ..... 92
CHAPTER 4 ..... 94
Conclusion and implications ..... 94

4.1 Conclusion ..... 94

4.2 Limitations ..... 96

4.3 Topics for future research ..... 97

4.3.1 Executive talent and rewards ..... 97

4.3.2 Different settings ..... 98

APPENDICES ..... 99

REFERENCES ..... 138

# LIST OF TABLES

Table 2.1 Sample attrition and industry breakdown....20

Table 2.2 Descriptive statistics on IFRS implementation errors....22

Table 2.3 Descriptive statistics and variables definition....29

Table 2.4 Correlation coefficients matrix of the variables....32

Table 2.5 Comparing means and medians....35

Table 2.6 CFO's accounting talent and the CFO's compensation levels in the transition year....37

Table 2.7 CFO's accounting talent and the CFO's bonus compensation in the adoption year....40

Table 2.8 CFO's accounting talent and changes in the CFO's bonus compensation in the adoption year....42

Table 2.9 CFO's accounting talent and the CFO's turnover in the adoption year and one year after the adoption year....44

Table 3.1 Sample attrition and industry breakdown....66

Table 3.2 Descriptive statistics and variables description....74

Table 3.3 Univariate tests on the association between earnings quality metrics and implementation errors....78

Table 3.4 Multivariate tests on the association between earnings quality metrics and implementation errors....81

Table 3.5 Additional tests on the Jones model, the modified Jones model adjusted for performance and the Dechow and Dichev (2002) model as modified by McNichols(2002)....87

Table 3.6 Implementation errors and hypothesized determinants of earnings quality....89

## APPENDICES

Appendix 1 Calculating the CFO's accounting talent/implementation errors.....99

Appendix 2 Examples of differences in the application of GAAP and IFRS.....100

Appendix 3 CEO's accounting talent.....103

Appendix 4 Variations in firm performance specification.....106

Appendix 5 First-stage regression with three instruments.....111

Appendix 6 Quartiles, quintiles and deciles regressions of CFO's accounting talent and the CFO's compensation levels in the transition year.....112

Appendix 7 Net profit as a scalar for the CFO's accounting talent instead of total assets (TA).....115

Appendix 8 Sample partitioned by financial year ends.....119

Appendix 9 Explanatory power of including, the CFO's accounting talent, economic determinants of the firm, corporate governance mechanisms and other CFO characteristics.....125

Appendix 10 Earnings quality metrics (positive) and implementation errors .....132

Appendix 11 Earnings quality metrics (negative) and implementation errors .....133

Appendix 12 Earnings quality metrics and implementation errors (using indicator variable).....134

Appendix 13 Descriptive statistics on the Jones model, the modified Jones model and the modified Jones model adjusted performance.....135

# ABSTRACT

First, the thesis investigates the relation between the Chief Financial Officer's (CFO's) accounting talent, his/her compensation and his/her turnover. The thesis contends that accounting talent of the CFO can be measured by implementation errors, when a country moves to the International Financial Reporting Standards (IFRS) by adopting a "big bang" approach where all firms have to adopt IFRS within the same accounting period without the opportunity of early or late adoption. Eighteen different accounting errors are hand-collected for a sample of 280 Australian companies, which is used in constructing the CFO's accounting talent. The thesis finds (i) a positive relation between the CFO's accounting talent and the CFO's compensation ex-ante in the transition year, (ii) a positive relation between the CFO's accounting talent and the CFO's bonus compensation in the subsequent year (adoption year) and (iii) an inverse relation between the CFO's accounting talent and the CFO's turnover in the subsequent year (adoption year). Further tests on the Chief Executive Officer's (CEO's) accounting talent and the CEO's compensation and turnover and alternative specifications of our variables confirm our results. Overall the findings bring into question the outcomes of government intervention in setting executive compensation. Second, the thesis investigates the extent to which commonly used earnings quality metrics capture implementation errors. The metric used to measure implementation errors is the same as the measure used for the CFO's accounting talent. A positive relation is expected, between some commonly used earnings quality metrics and implementation errors as these metrics have been claimed to capture the extent to which earnings are calculated with errors. Ranging from highest to lowest in terms of explanatory power, from OLS regressions are: total accruals, earnings persistence, accruals quality and earnings predictability. Implementation errors in reported earnings however do not explain variations in "abnormal" accruals as estimated from a firm-specific time-series regressions of the modified Jones model and in earnings smoothness. Overall the results have implications for researchers and provide guidance regarding the appropriateness of earnings quality metrics selected in their research setting. The results also point to the fact that total accruals may be a "better" proxy for implementation errors compared to more "sophisticated" models.